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No. 88-592

In The

Supreme Court Of The United States

October Term 1988

PYROTRONICS CORPORATION,

Petitioner,

vs.

PYRODYNE AMERICAN CORP.

Respondent.

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

JAMES R. UHLIR
CHRISTENSEN, O'CONNOR,
JOHNSON & KINDNESS
2700 Westin Building
2001 Sixth Avenue
Seattle, WA 98121

Attorney for Respondent

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QUESTION PRESENTED

Should a court consider equitable defenses in an action to enforce an incontestable trademark registration?

PARTIES TO THE PROCEEDING

Respondent Pyrodyne American Corp. is an Alabama corporation which acquired the fireworks business of Pyrodyne Corporation, a Washington corporation on September 30, 1988. Pyrodyne American Corp. is not an affiliate, a parent company, or a subsidiary of another company.

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Respondent, Pyrodyne American Corp. (hereinafter "Pyrodyne") has considered the Petition for Writ of Certiorari

filed by Pyrotronics Corporation (hereinafter "Pyrotronics") and opposes the issuance of such writ for the reasons set forth hereafter in the argument portion of this brief. In addition, Respondent believes that the Statement of the Case portion of the Petition for Writ of Certiorari has ignored a number of significant facts and, consequently, is misleading. Respondent submits a Supplemental Statement of the Case that more clearly reflects the factual situation to which the relevant law is to be applied.

SUPPLEMENTAL STATEMENT OF THE CASE

Pyrotronics is the owner of Federal Trademark Registration No. 857,753 for the mark RED DEVIL for fireworks. This mark was registered on October 1, 1968, and the appropriate declarations having

been later filed, the registered mark has become incontestable under Section 15 of the Lanham Trademark Act, 15 U.S.C. § 1065.

Pyrodyne was initially incorporated under the name Zebra Fireworks Company, Inc., in the state of Washington in 1958. In 1966, it changed its name to Zebra Distributing Company, Inc. In 1970, Mr. Patrick Moriarity was Chairman of the Board and principal shareholder of both Zebra and Pyrotronics. At that time, Zebra was required to change its corporate name and Moriarity and the Board of Directors of Pyrotronics unanimously consented to Zebra's change of its name to, and use of, the trademark and trade name RED DEVIL in Zebra's Pacific Northwest trade territory where Pyrotronics had never operated. In particular, Zebra's trade territory included the states of

Washington, Oregon, Montana, Alaska, and northern Idaho.

At the July 17, 1970 meeting of its Board of Directors, Pyrotronics consented to Zebra's change of name to RED DEVIL. Zebra changed its name on August 30, 1970. The name change was ratified by all shareholders of Zebra, including Patrick Moriarity, Henry L. Bear and Harry A. Hescox, who were also members of the Board of Directors of Pyrotronics.

The minutes of the July 17, 1970 meeting of Pyrotronics Board of Directors include the following:

> The chairman then stated that Zebra Fireworks had requested the right to use Red Devil Fireworks Co., in their corporate name.
>
> It was moved, seconded and unanimously carried that the ZEBRA DISTRIBUTING CO., INC., be allowed to use the name of RED DEVIL FIREWORKS COMPANY in their corporate name. Subject to a license agreement to be prepared.

No license agreement was ever prepared or signed, but in 1970 Zebra changed its name to Red Devil Fireworks, Co. of Washington, Inc. and began to operate under the trade name RED DEVIL. In 1971, this corporate name was changed to Pyrodyne Corporation, but Pyrodyne continued to do business under the trade name RED DEVIL, and has done so continuously from that date to the present.

During the past ten years, Pyrodyne has expended a total of over $500,000 in advertising and promotion of the sale of fireworks under the RED DEVIL name in its trade territory. Pyrodyne has been the largest seller of fireworks in the state of Washington since 1962, and has sold over $24,000,000 worth of fireworks under the name RED DEVIL in its trade territory between 1977 and 1986.

From at least 1970 until late 1985, the officers, Boards of Directors, and shareholders of Pyrodyne and Pyrotronics were always closely intertwined. Mr. Moriarity served as Chairman of the Board of Directors of both Pyrotronics and Pyrodyne from 1968 through 1985. Pyrodyne purchased fireworks from Pyrotronics exclusively from 1962 until about 1975, but then began buying an increasing amount of fireworks from other sources, including directly from the Orient. These other purchases were made with Pyrotronics' knowledge and approval. In fact, in 1977, Mr. Hescox, then President of Pyrotronics, and a gentleman who remains a shareholder and Director of both Pyrodyne and Pyrotronics, placed orders for fireworks on behalf of Pyrodyne in the Orient. Pyrodyne paid Pyrotronics a 5% commission for this

buying service. In 1978 and 1979, Mr. Hescox accompanied Jerry Elrod, President of Pyrodyne, to the Orient and introduced him to fireworks manufacturers with the intent that these manufacturers would thereafter supply Pyrodyne with fireworks directly.

From 1970 through late 1985, Pyrodyne has been the exclusive user of the RED DEVIL name in its trade territory in the Pacific Northwest. On January 2, 1985, Darrell Byington, President of Pyrodyne, wrote to Harry Hescox, President of Pyrotronics, pointing out that he had not been able to find a written document granting plaintiff the right to use RED DEVIL and specifically requesting Mr. Hescox to reconfirm the grant as follows:

> It would seem appropriate that Pyrotronics issue the necessary papers to give the

> right to Pyrodyne for the use of these names since we have been using them for 20 years. It would be for the benefit of both companies if we clarify these issues now prior to some takeover of Pyrotronics. Let me know if there is any problem.

Mr. Hescox responded to Mr. Byington by letter of January 10, 1985, as follows:

> This letter is to re-confirm that agreement which has been in effect for approximately twenty (20) years that Pyrotronics Corporation has granted to Red Devil of Washington the right to use the names "RED DEVIL" and "PICCOLO PETE", which are registered and trademarked to Pyrotronics Corporation.
>
> The permission granted to use these names shall not obligate Pyrotronics Corporation in any way in the event of any future change in the legal status of the registrations and trademarks of the names involved.
>
> Pyrotronics Corporation has not granted the right to use these names to any other company.

Thereafter, Pyrotronics entered bankruptcy and was, in fact, taken over by new management. In late 1985, Pyrotronics opened an office under the name RED DEVIL in Spokane, Washington, and began to operate a fireworks business. Thereafter, Pyrotronics began using the RED DEVIL name on assortment boxes for fireworks, on fireworks stands, on signs and in advertising, including telephone directories throughout Pyrodyne's trade territory. The mark is not used on fireworks themselves.

Pyrodyne's attorney wrote Pyrotronics on March 3, 1986, requesting Pyrotronics to cease using the RED DEVIL name in its trade territory, and when Pyrotronics continued to operate under the RED DEVIL name in Pyrodyne's trade territory, Pyrodyne filed suit in the United States District Court for

the Eastern District of Washington. During oral argument on Pyrodyne's motion for a preliminary injunction, the District Court acknowledged that all of the equities were in Pyrodyne's favor, but felt constrained, nevertheless, to deny Pyrodyne's motion holding that the incontestability provisions of the Lanham Act should be strictly construed as eliminating equitable defenses. In so ruling, the District Court ignored controlling Ninth Circuit law and instead relied upon the case of Deflecta-Shield v. Kar-Rite, Corp., 1 U.S.P.Q. 2d, 1236 (N.D. Ill. 1986). Pyrodyne appealed the denial of its motion and the Ninth Circuit Court of Appeals reversed the District Court's ORDER. This Petition for Certiorari followed.

ARGUMENT

I. Incontestability Is Not A License To Act Inequitably

The crux of Pyrotronics' argument is that it has the right to ignore the consent agreement to use the RED DEVIL name which it made with Pyrodyne in 1970, abided by for 15 years while Pyrodyne built its business in reliance on its exclusive right to use the RED DEVIL name, and reconfirmed in January of 1985, solely because it is the owner of an incontestable trademark registration. Pyrodyne submits that there is no overriding policy in the Lanham Trademark Act allowing the owners of incontestable trademark registrations: to make agreements and then ignore them or to allow a company that has caused others to rely on its actions for many years to precipitously

change its course of action to the reliant's detriment.

Incontestability is a recognition of a registrant's exclusive right to use a trademark based on the registrant's statements made to the Trademark Office that he possesses such right. See 15 U.S.C. § 1065. It does not prevent the trademark owner from intentionally limiting his rights, before or after the registration becomes incontestable, such as by granting another the exclusive right to use the trademark in a particular geographic area remote from the owner's area of use. This is precisely what Pyrodyne did in 1970 when, before its registration became incontestable, it granted Pyrodyne the exclusive right to use the name RED DEVIL in Pyrodyne's Pacific Northwest trade territory where Pyrotronics had never before

operated. Preventing the owner of an incontestable trademark registration from arbitrarily ignoring such a grant through an exercise of the equitable defenses of laches and estoppel, does not weaken the rights granted by incontestability, but merely holds Pyrodyne to the rule of behavior required of all legal entities, namely, that it abide by its binding agreements.

II. The Decision Of The Court Of Appeals Is Not In Conflict With This Court's Park 'N Fly Decision

Pyrotronics argues that the Ninth Circuit Court of Appeals' decision in this case is somehow contrary to this Court's decision in Park 'N Fly, Inc. v. Dollar Park and Fly, Inc., 469 U.S. 189, 105 S.Ct. 658, 83 L.Ed.2d 582,

(1985). To the contrary, this Court, at footnote 22 in Park 'N Fly, stated the following:

> 22. The Court emphasizes that it does not address whether traditional equitable defenses are available in an action to enforce an incontestable mark. Ante, at 203, n 7, 83 L Ed 2d, at 593. Thus, the Court chooses not to rule on whether the language of § 33(b) can be ignored when a defense such as laches or estoppel is asserted. Several courts have indicated that such defenses are allowed (citations omitted). Several commentators have also written on the subject. 2 J. McCarthy, Trademarks and Unfair Competition 761 (1984). One early article noted: 'The fact that Section 33(b) limits the defenses against an incontestable mark to seven specific issues is possibly not conclusive. It is difficult to imagine an equity court granting injunctive relief to a registrant who comes into court with unclean hands, even though the defendant is unable to establish one of the seven specific defenses listed in Section 33(b). Other equitable doctrines

> such as laches and estoppel would probably also preclude junction and damages in the case of an incontestable mark. However, there is always the possibility that the courts might give the Act a strict and technical construction, precluding any defense except those specifically enumerated.' Diggins, The Lanham Trade-Mark Act, 35 Geo LJ 147, 195 (1947).

No clearer statement could be found that this Court did not consider the present issue in Park 'N Fly.

The assertability of equitable defenses in a trademark infringement context has been considered in at least one Court of Appeals case since the Supreme Court's decision in Park 'N Fly. In United States Jaycees v. Cedar Rapids Jaycees, 794 F.2d 379 (8th Cir. 1986), the Court refused to enter an injunction in a suit by the owner of an incontestable registration on the ground that the entrance of such an

injunction would not be consistent with "the principles of equity" as that phrase is used in 15 U.S.C. § 1116 (794 F.2d at 383). In discussing the Park 'N Fly case, that Court stated, at page 382:

> While the Court did say that the equitable power granted under § 1116 does not expand the seven enumerated defenses to the validity of an incontestable mark under § 1115(b), it specifically did not address the question raised here: 'whether traditional equitable defenses such as estoppel or laches are available in an action to enforce an incontestable mark.' 105 S.Ct. at 666 n. 7 (emphasis added). See also 105 S.Ct. at 673 and n. 22 (Stevens, J., dissenting). We do not believe that the limitations in § 1115(b) relating to the validity or ownership of a mark also limit the discretion of the court to give equitable relief appropriate to the circumstances of each case. To do so would indeed make injunctive relief a ministerial act, supra at 6, and wipe away the discretion which is inherent in the equitable power.

> In the present case, the ownership and validity of the registered mark 'Jaycees' are not at issue. The restrictions on defenses which are found in § 1115(b) are irrelevant since they come into play only when the validity of the mark is questioned.

In the present case Pyrodyne never attacked the validity of Pyrotronics' registration of the mark RED DEVIL. Pyrodyne merely asserts that it is entitled to use the RED DEVIL name exclusively in its trade territory in the Pacific Northwest where it had operated exclusively for 15 years, with Pyrotronics' consent and full knowledge, before Pyrotronics elected to begin unfairly competing under the same name.

III. Public Policy Requires That Pyrodyne be Allowed to Assert Equitable Defenses in This Case

Over the past 15 years, Pyrodyne's expenditures on advertising and its very substantial sales under the RED DEVIL name, have generated substantial and valuable goodwill which has redounded to its benefit and not to that of Pyrotronics. The purchasing public in Pyrodyne's trade area identifies the name RED DEVIL with Pyrodyne. This is necessarily the case since Pyrotronics has never operated in Pyrodyne's trade area. Failure to allow Pyrodyne to assert its well-founded defenses of estoppel by laches and estoppel by acquiescence against Pyrotronics' assertion of its incontestable trademark would allow Pyrotronics to usurp the goodwill which Pyrodyne has

developed in the RED DEVIL name over the past fifteen years. If this occurs, the purchasing public will be misled in that they will tend to believe that they are still purchasing from the same source with which they have dealt in the past, Pyrodyne, when, in fact, they will be dealing with a new and untried source, Pyrotronics.

A significant policy underlying the Lanham Trademark Act is to protect the purchasing public from precisely this type of confusion and deception. If Pyrodyne is prevented from asserting its equitable defenses, Pyrotronics will obtain legal sanction for what would clearly be trade name infringement and unfair competition were it not for a stilted reading of the incontestability provisions of the Lanham Trademark Act. This type of "bad" decision will not be unusual if courts

are required to ignore equity and reward the inequitable.

IV. Section 34 of the Lanham Act Specifically Sanctions Consideration of the Principles of Equity

Section 34 of the Lanham Act, 15 U.S.C. § 1116, clearly vests district courts with the power to grant injunctions "according to the principles of equity." See Cuban Cigar Brands N.V. v. Upmann International, Inc., 457 F.Supp. 1090, 1092 (S.D.N.Y. 1978). In that case, the court stated at footnote 5:

> It is clear from both the statute and the cases that laches is a defense even where a mark is incontestable under 15 U.S.C. § 1065. See 15 U.S.C. § 1116 (Court has power 'to grant injunctions, according to the principles of equity'); Roto-Rooter Corp. v. O'Neal, 513 F.2d 44 (5th Cir. 1975); John Wright,

> Inc. v. Casper Corp., 419 F.Supp. 292 (E.D.Pa 1976); Haviland & Co. v. Johann Haviland China Corp., 269 F.Supp. 928 (S.D.N.Y. 1967); Polaroid Corp. v. Polarad Electric Corp., 182 F.Supp. 350 (E.D.N.Y. 1960), aff'd., 287 F.2d 492 (2d Cir.), cert. denied, 386 U.S. 820, 82 S.Ct. 36, 7 L.Ed.2d 25 (1961).

In its petition, Pyrodyne attempts to explain away this clear statement by arguing that "principles of equity may be considered in determining the scope of relief available against an infringer, but not in establishing the trademark owner's right to such relief." Such a distinction finds no support in the Lanham Act or, indeed, in logic. The power to grant injunctions "according to the principles of equity" requires consideration of equitable principles both in deciding whether or not an injunction is to be granted, as well as in considering the scope of such an injunction.

CONCLUSION

There is no trademark right to be defended, nor public policy to be strengthened, by placing a gloss upon the Lanham Trademark Act which allows the owner of an incontestable trademark registration to act inequitably. The Petition for Writ of Certiorari should be denied.

DATED this 2nd day of November, 1988.

Respectfully submitted,

JAMES R. UHLIR
CHRISTENSEN, O'CONNOR,
JOHNSON & KINDNESS
2700 Westin Building
2001 Sixth Avenue
Seattle, WA 98121

Attorney for Respondent
Pyrodyne Corporation

CERTIFICATE OF SERVICE

I hereby certify that three copies of this BRIEF IN OPPOSITION TO PETITION FOR CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT is being deposited with the U.S. Postal Service as first class mail in a sealed envelope with first class postage thereon fully prepaid, and addressed to:

Francis A. Utecht, Jr.
Suite 510, Harbor Bank Building
11 Golden Shore
Long Beach, California 90802,

Counsel for Petitioner, pursuant to Supreme Court Rule 28(c). All parties required to be served have been served.

James R. Uhlir
Attorney for Respondent

Date: November 2, 1988